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# Credit for Military Service Under Civilian Federal Employee Retirement Systems

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## Summary

Federal employees with permanent appointments earn pension benefits under one of two retirement plans. Employees hired after 1983 participate in the Federal Employees' Retirement System (FERS). Employees hired before 1984 participate in the Civil Service Retirement System (CSRS) unless they elected to transfer to the FERS during open seasons held in 1987 and 1998. When Congress established the CSRS in 1920, it allowed veterans who subsequently became civilian federal employees to count their years of active-duty military service toward retirement eligibility and pension benefits under CSRS. The statutes that allow military service to be credited toward a civil service pension have been amended several times over the years, mainly to coordinate civil service retirement benefits with benefits earned under Social Security.

Under both CSRS and FERS, federal employees who have served on active duty in the military can have their years of military service counted for retirement eligibility and pension benefits. The employee may be required to make a deposit to the Civil Service Retirement and Disability Fund (CSRDF) for military service to be credited toward a civil service retirement annuity. Military service can be counted toward a civil service retirement annuity only if the individual is not receiving a military pension for that service.

Veterans of active-duty military service who were hired into civilian federal employment before October 1, 1982, who do not make a deposit to the CSRDF before separating from federal employment receive CSRS retirement credit for post-1956 military service only until they are eligible for Social Security. Their CSRS annuities are reduced by the amount that is attributable to their military service when they become eligible for Social Security benefits. Those who made deposits to the CSRDF before separating from federal employment do not have their civil service annuities reduced when they become eligible for Social Security. For employees enrolled in CSRS, the required deposit is 7.0% of the total amount of basic pay received while on active duty in the military. For employees enrolled in FERS, the required deposit is 3.0% of their total basic military pay. Deposits made before October 1, 1985, were not charged interest. Interest is charged on deposits made after that date.

Veterans of active-duty military service hired into civilian federal employment after September 30, 1982, receive civil service retirement credit for post-1956 military service *only* if they make a deposit to the CSRDF. For employees enrolled in CSRS, the required deposit is 7.0% of the total amount of basic pay received while on active duty in the military. For employees enrolled in FERS, the required deposit is 3.0% of their total basic military pay. If the employee makes the deposit within two years of being hired into civilian federal employment, no interest is charged.

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## Crediting Military Service under CSRS and FERS

Federal employees with permanent appointments earn pension benefits under one of two retirement plans. Employees hired after 1983 participate in the Federal Employees' Retirement System (FERS). Employees hired before 1984 participate in the Civil Service Retirement System (CSRS) unless they elected to transfer to the FERS during open seasons held in 1987 and 1998.<sup>1</sup> Under both CSRS and FERS, federal employees who have served in the military can add their years of active-duty military service to their civilian service for purposes of retirement eligibility and pension benefits.<sup>2</sup> Because both CSRS and FERS require employees to contribute toward their future pensions, an employee may be required to make a deposit to the Civil Service Retirement and Disability Fund (CSRDF) for military service to be credited toward a civil service retirement annuity. The process by which the amount of the required deposit is determined is the main subject of this report.<sup>3</sup>

Congress has amended the laws that govern the conditions under which periods of military service can be credited toward a civil service pension several times over the years, mainly to coordinate civil service retirement benefits with benefits earned under Social Security. The specific rules under which military service will be credited toward a civilian federal retirement annuity depend on the years in which the military service was performed, the date on which the employee was hired, and the retirement system in which the employee is enrolled. For purposes of crediting military service toward a civil service pension, federal law differentiates between

- military service performed before 1957 and service performed after 1956,
- federal employees hired before October 1, 1982, and those hired after September 30, 1982, and
- federal employees enrolled in CSRS and those who are enrolled in FERS.

### Military Service, Civil Service Pensions, and Social Security

In 1920, Congress established the Civil Service Retirement System to provide pensions to retired civilian federal employees.<sup>4</sup> Since its inception, the CSRS has required both employees and the federal agencies that employ them to contribute toward the cost of prefunding employee pensions. These contributions are invested in special-issue U.S. Treasury bonds that are held by the Civil Service Retirement and Disability Fund. Pensions are paid to retired federal employees from the CSRDF.

Employee contributions to the CSRDF are made through payroll deduction. Initially, federal employees were required to contribute 2.5% of their pay toward CSRS pensions. Congress

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<sup>1</sup> Federal employees with temporary appointments (i.e., appointments lasting less than one year) do not earn retirement benefits other than Social Security. Retirement benefits under both CSRS and FERS are described in CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

<sup>2</sup> A civilian federal employee who is receiving a pension for his or her military service can count his or her years of military service toward a civilian federal retirement annuity only if he or she elects to waive the military pension and have the years of military service added to his or her civilian service.

<sup>3</sup> The requirements for crediting military service under CSRS are specified in law at 5 U.S.C. §8334(j). The requirements for crediting military service under FERS are specified at 5 U.S.C. §§8411(c) and 8422(e).

<sup>4</sup> P.L. 66-215, Civil Service Retirement Act of 1920.

increased the required employee contribution to 3.5% of pay in 1942, to 5.0% in 1948, and to 6.0% in 1956. Since 1969, employees enrolled in CSRS have been required to contribute 7.0% of their pay to the CSRDF. When the Federal Employees' Retirement System was established in 1986, Congress required employees enrolled in FERS to contribute 0.8% of pay to the CSRDF for their FERS pensions and 6.2% of pay (up to the annual maximum taxable wage) to Social Security.<sup>5</sup> In 2012, Congress increased the required employee contribution to FERS to be 3.1% of pay to the CSRDF and 6.2% of pay (up to the annual maximum taxable wage) to Social Security, *but only* for FERS employees hired (or rehired with less than five years of FERS service) in calendar year 2013.<sup>6</sup> In 2013, Congress further increased the required contributions to FERS to be 4.4% of pay to the CSRDF and 6.2% of pay (up to the annual maximum taxable wage) to Social Security, *but only* for FERS employees hired (or rehired with less than five years of FERS service) after December 31, 2013.<sup>7</sup>

When Congress established the CSRS, it allowed veterans who subsequently became civilian federal employees to count their years of active-duty military service toward retirement eligibility and pension benefits under CSRS. Veterans hired into civilian federal employment were not required to make a contribution to the CSRS for their military service to be credited toward a CSRS annuity. The additional expense to the CSRS was paid from the general revenues of the U.S. Treasury. In the years following World War II, Congress granted wage credits under Social Security for wartime military service, which at that time was not covered under the Social Security Act. In 1956, Congress brought military service under the Social Security Act.<sup>8</sup>

## The Post-World War II Amendments to the Social Security Act

Because military service during World War II interrupted Social Security coverage for millions of Americans who otherwise would have been employed in jobs covered by Social Security, Congress amended the Social Security Act in 1946 to provide survivor benefits to the dependents of World War II veterans who died within three years of having been discharged from the military.<sup>9</sup> The 1946 amendments deemed World War II veterans to be fully insured under Social Security for purposes of survivor benefits, even if they had not completed the required number of quarters of covered employment under Social Security.

In 1950, Congress amended the Social Security Act to grant wage credits toward *all* Social Security benefits for military service performed between September 1940 and July 1947.<sup>10</sup> The 1950 amendments prohibited military service from being credited toward Social Security benefits if the same military service was credited toward a CSRS pension. Military service could be

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<sup>5</sup> Employees under CSRS do not contribute to Social Security and do not earn Social Security benefits. Employees under FERS pay 6.2% of pay to Social Security up to the annual maximum taxable salary, which is \$117,000 in 2014.

<sup>6</sup> P.L. 112-96, the Middle Class Tax Cut Relief and Job Creation Act of 2012.

<sup>7</sup> P.L. 113-67, the Bipartisan Budget Act of 2013.

<sup>8</sup> The Social Security Act of 1935 provided old-age and survivor benefits to workers in the private sector. Neither civilian federal employees nor individuals serving in the military were covered by the Social Security Act of 1935.

<sup>9</sup> P.L. 79-719, Social Security Act Amendments of 1946. Survivor benefits were paid to dependents of veterans discharged (other than dishonorably) from the military up to four years after the end of World War II. Social Security survivor benefits were not paid in the event that similar compensation was paid by the Veterans' Administration.

<sup>10</sup> P.L. 81-734, Social Security Act Amendments of 1950. World War II service was defined as active-duty military service performed in the period between September 16, 1940, and July 24, 1947.

credited toward *either* Social Security benefits or a civil service pension, but not *both*.<sup>11</sup> Veterans were not required to contribute to Social Security to gain credit for their World War II service. The cost was to be borne by the Social Security trust fund.

In 1952, Congress amended the Social Security Act to grant wage credits toward Social Security benefits for each month of military service after July 1947 and before January 1954.<sup>12</sup> As in the 1950 amendments, the 1952 amendments prohibited military service from being credited toward Social Security benefits if the same military service was credited toward a CSRS pension. In 1953, Congress granted wage credits under Social Security for military service performed through June 30, 1955.<sup>13</sup> In 1955, Congress granted wage credits under Social Security for military service performed through March 31, 1956.<sup>14</sup>

## Servicemen's and Veterans' Survivor Benefits Act of 1956

The wage credits that Congress granted toward Social Security benefits for military service in the amendments of 1950, 1952, 1953, and 1955 did not require contributions from either individuals or from the Department of Defense. Because Social Security benefits are paid through payroll taxes levied on employers and employees and interest credited to the trust funds, granting wage credits for which no contributions had been paid created an unfunded liability for the Social Security trust funds. In the Servicemen's and Veterans' Survivor Benefits Act of 1956 (P.L. 84-881), Congress addressed this issue with respect to future benefit accruals by including as covered employment under the Social Security Act military service performed after 1956. Military service that was performed before 1957 continued to be credited toward Social Security without individuals having to make any contributions to Social Security.

The 1956 law granted Social Security wage credits for all military service performed before 1957 and brought military service performed after 1956 fully under the Social Security Act. Since 1957, military service has been subject to Social Security payroll taxes and has been counted as covered employment for all Social Security benefits. In keeping with the precedent established by the 1950 amendments, under which military service could be credited toward *either* Social Security or a CSRS pension, but not *both*, P.L. 84-881 required military service performed after 1956 to be excluded from the computation of a CSRS pension if the individual was eligible for Social Security.<sup>15</sup> Military service continued to be creditable toward a CSRS pension, but the pension was reduced by the amount attributable to the retiree's military service when he or she became eligible for Social Security benefits. CSRS pensions were not reduced if the individual was ineligible for Social Security because he or she had not completed the required number of quarters of covered employment under Social Security.

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<sup>11</sup> Congress prohibited crediting military service toward both Social Security and CSRS because individuals not serving in the military could not ordinarily have acquired simultaneous coverage under Social Security and CSRS.

<sup>12</sup> P.L. 82-590, Social Security Act Amendments of 1952.

<sup>13</sup> P.L. 83-269.

<sup>14</sup> P.L. 84-325.

<sup>15</sup> Federal employees enrolled in CSRS do not participate in Social Security. However, a former federal employee who has earned a CSRS pension might also be eligible for a Social Security benefit if he or she had earned the required number of quarters of coverage through other employment (including military service) or if he or she was eligible for a spouse's benefit or Social Security survivor benefit.

Under the 1956 law, CSRS pensions were recalculated when a retiree became *eligible* for Social Security (typically at age 62), regardless of whether he or she had applied for Social Security benefits.<sup>16</sup> The recalculation reduced the individual's CSRS pension by the amount that was attributable to his or her military service. If this amount was greater than the Social Security benefit that he or she had earned, it resulted in a reduction in the individual's total income.<sup>17</sup>

## Omnibus Budget Reconciliation Act of 1982

The Omnibus Budget Reconciliation Act of 1982 (OBRA of 1982; P.L. 97-253) established a process by which federal employees who are veterans of military service can avoid having their civil service pensions reduced when they become eligible for Social Security benefits. The OBRA of 1982 allows veterans who were hired into civilian federal employment *before* October 1, 1982 (the effective date of the law), to deposit into the CSRDF an amount equal to the total deductions that would have been withheld from their basic military pay if they had been in the civil service rather than in the military in those years. Veterans who were hired into federal employment before October 1, 1982, are not required to make this deposit, but if they do not, their military service will count toward their civil service retirement annuities only until they are eligible for Social Security.

If a veteran hired before October 1, 1982, has not made a deposit to the CSRDF before separating from federal service, his or her civilian federal retirement annuity will be reduced by the amount that is attributable to military service when he or she becomes eligible for Social Security. For employees enrolled in CSRS, the required deposit is 7.0% of the total amount of basic pay received while on active duty in the military. For employees enrolled in FERS, the required deposit is 3.0% of their total basic military pay. Employees can make the deposit in a lump sum or through payroll deduction. Because the CSRDF earns interest on the Treasury securities that it purchases, employees hired before September 30, 1982, who did not make a deposit within three years of the enactment of the OBRA of 1982 are required to include interest payments with the deposit to the CSRDF. Interest is charged on deposits made after October 1, 1985.

The OBRA of 1982 also provided that veterans hired into civilian federal employment *after* September 30, 1982, will receive civil service retirement credit for their post-1956 military service *only* if they make a deposit to the CSRDF.<sup>18</sup> For employees enrolled in CSRS, the required deposit is 7.0% of the total basic pay they received while serving on active duty in the military. For employees enrolled in FERS, the required deposit is 3.0% of the total basic pay they received while serving on active-duty in the military.<sup>19</sup> If the employee makes the deposit within two years of being hired into civilian federal employment, no interest is charged.

Regardless of the date on which an employee was hired into federal employment or the retirement system under which he or she is covered, deposits to the CSRDF for military service must be paid

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<sup>16</sup> If they retired at 62 or later, their post-1956 military service was not credited toward their CSRS benefits.

<sup>17</sup> Total income was most likely to be reduced for individuals whose Social Security earnings history was short and/or those whose career earnings in employment covered by Social Security were low.

<sup>18</sup> Under some circumstances, such as active-duty military service performed after August 1, 1990, that interrupts civilian federal service, special provisions may apply under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA; P.L. 103-353).

<sup>19</sup> Military service is credited under FERS rules if it was performed after the individual became covered by FERS or had less than five years of civilian service (other than CSRS Offset service) upon becoming covered by FERS.

before the individual separates from federal employment because initial retirement annuity processing occurs in each agency's payroll system before the records are transferred to OPM.<sup>20</sup>

## Social Security Amendments of 1983

The Social Security Amendments of 1983 (P.L. 98-21) mandated Social Security coverage for all federal employees hired after 1983. These amendments also required the U.S. Treasury to reimburse the Social Security trust funds for the cost of Social Security benefits attributable to the wage credits that Congress granted for military service performed before 1957.

## Federal Employees' Retirement System Act of 1986

The Federal Employees' Retirement System Act of 1986 (P.L. 99-335) created a new retirement system for federal employees who were hired after 1983 or who elected to transfer from the Civil Service Retirement System to the Federal Employees' Retirement System. Because employees under FERS earn Social Security retirement benefits, the FERS basic retirement annuity is smaller than the CSRS retirement annuity.

### Current Employee Contributions

Under both CSRS and FERS, employees are required to contribute toward their civil service pensions. Employees under FERS also are required to pay Social Security payroll taxes. Employees enrolled in CSRS contribute 7.0% of their pay to the CSRDF. Employees enrolled in FERS contribute 6.2% of pay to the Social Security trust fund<sup>21</sup> in addition to the following contributions to the CSRDF, based on date of first hire:

- Employees first hired prior to December 31, 2012, contribute 0.8% of pay to the CSRDF;
- Employees first hired (or rehired with less than five years of FERS service) in calendar year 2013, contribute 3.1% of pay to the CSRDF; and
- Employees first hired (or rehired with less than five years of FERS service) after December 31, 2013, contribute 4.4% of pay to the CSRDF.

### Normal Cost of Pension Benefits

The cost of prefunding a pension is called the pension's "normal cost." This is the amount, expressed as a percentage of payroll, that must be set aside each year to prefund the pension benefits that plan participants will earn in that year. The normal cost of a pension depends on several factors, such as employee salaries, the amount of the pension benefit relative to these salaries, employee tenure, and assumptions about future mortality, inflation, and interest rates. The Office of Personnel Management has estimated the normal cost of CSRS to be equal to

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<sup>20</sup> When an employee leaves federal service or moves from one agency to another, his or her payroll record is sent to OPM. OPM maintains these records until the individual applies for a retirement annuity.

<sup>21</sup> Social Security taxes are paid by employees and employers up to the maximum taxable earnings base, which is adjusted annually at the rate of growth of the national average wage. In 2014, maximum taxable earnings are \$117,000.

26.0% of payroll and the normal cost of FERS to be equal to 12.7% of payroll.<sup>22</sup> The employee contributions of 7.0% of pay under CSRS and 0.8% of pay under FERS account for approximately 26.9% and 6.3%, respectively, of the total annual cost of prefunding the retirement and survivor annuities provided by these two programs.<sup>23</sup> FERS employees first hired after December 31, 2012, make increased employee contributions that account for approximately 24.4% of the total annual cost of prefunding FERS annuities.<sup>24</sup>

Employee contributions pay only part of the cost of retirement annuities under CSRS and FERS. Contributions by federal agencies for current employees, interest earned by the Treasury bonds held by the CSRDF, and transfers from the general revenues of the Treasury pay the majority of the cost of retirement and survivor annuities under CSRS and FERS.

### **Employee Contributions as a Percentage of Normal Cost**

The OBRA of 1982 requires all federal employees hired after September 30, 1982, to make a deposit to the CSRDF to receive credit toward a civil service annuity for military service performed after 1956. Employees enrolled in CSRS who wish to have military service counted toward a CSRS annuity must deposit to the CSRDF an amount equal to 7.0% of the total basic pay they received while serving on active duty in the military, plus any applicable interest charges. For employees in CSRS, the required contribution of 7.0% of the total basic pay they received while serving on active duty in the military is the same percentage of pay that would have been deducted if the employee had been in the civil service rather than the military during the years to be credited toward the CSRS annuity.

Employees enrolled in FERS who wish to have military service counted toward a FERS annuity must deposit to the CSRDF an amount equal to 3.0% of the total basic pay they received while serving on active duty in the military, plus any applicable interest charges. For employees under FERS who were first hired before December 31, 2012, the required contribution of 3.0% of the total basic pay they received while serving on active duty in the military is *more* than the 0.8% of pay that would have been deducted if the employee had been in the civil service rather than the military during the years to be credited toward the FERS annuity. For FERS employees first hired in calendar year 2013, however, the required contribution for military service credit of 3.0% of total basic pay received is slightly less than the 3.1% of pay that would have been deducted for FERS if the employee had been in civil service rather than military service. For FERS employees first hired after December 31, 2013, the required contribution for military service (3.0% of total basic pay) is even less than the 4.4% of pay required for these civil service employees under FERS.

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<sup>22</sup> U.S. Office of Personnel Management, *Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2011*.

<sup>23</sup> Employee contributions under CSRS are equal to 7.0/26.0 or 26.9% of the program's normal cost. Employee contributions under FERS are equal to 0.8/12.7 or 6.3% of the program's normal cost.

<sup>24</sup> FERS employee contributions for individuals hired (or rehired with less than five years of FERS service) after December 31, 2012, are equal to 3.1/12.7 or 24.2% of the program's normal cost. The additional funds generated from the further increased employee contributions under P.L. 113-67, the Bipartisan Budget Act of 2013, do not contribute to the financing of FERS costs; instead these further increased contributions pay down the current unfunded liability of CSRS. Once the CSRS unfunded liability has eliminated, the FERS employer contributions for individuals hired (or rehired with less than five years of FERS service) after December 31, 2013, will be recalculated and adjusted to be based on the dynamic normal cost of FERS.

Employees sometimes ask why the deposit required to credit active-duty military service toward a FERS annuity is greater for most current FERS employees than the percentage of pay that would have been deducted if the individual had been employed in the civil service during those years. Congress set the required contribution for crediting military service toward a FERS annuity at 3.0% of the basic military pay received so that employees under CSRS and FERS would contribute approximately equal percentages of the *total cost* of the civilian retirement annuity that each deposit purchased.<sup>25</sup> The 7.0% contribution required under CSRS is equal to 26.9% of the normal cost of a CSRS annuity.<sup>26</sup> The 3.0% contribution required under FERS is equal to 23.6% of the normal cost of a FERS annuity.<sup>27</sup> The portions of CSRS and FERS annuities that are attributable to military service and that are not paid for by employee contributions are paid out of the general revenues of the Treasury.

## **Interest on Deposits for Post-1956 Military Service**

All contributions and deposits to the Civil Service Retirement and Disability Fund are invested in interest-bearing securities issued by the U.S. Treasury or in other securities backed by the full faith and credit of the U.S. government. Employees who make a deposit to the CSRDF to credit their military service toward a civilian retirement annuity can do so without paying interest if the deposit is made within the time limits specified by law. If a deposit is made after the time limit has expired, it must include interest to make up for the income lost by the trust fund.

For employees hired before October 1, 1982, no interest was charged on deposits for military service that were made within three years of the enactment of the OBRA of 1982. For deposits made after October 1, 1985, interest is charged for the period between that date and the date of the deposit. For employees hired after September 30, 1982, interest charges begin two years after the date of hire. The interest rate on military service deposits changes annually.<sup>28</sup> For employees enrolled in CSRS, interest accrues on October 1 each year. For employees enrolled in FERS, interest accrues on the anniversary of the date on which they began their federal employment. Interest continues to accrue until the deposit is paid or the individual retires. Interest rates on military service deposits for each year since 1985 are shown in **Table 1**.

**Table 1. Interest Rates on Deposits for Post-1956 Military Service Credit**

Year	Interest Rate	Year	Interest Rate
2014	1.625	2004	3.875
2013	1.625	1998	6.875
2012	2.250	1997	6.875
2011	2.750	1996	6.875
2010	3.125	1995	7.000
2009	3.875	1994	6.250

<sup>25</sup> The conference report on the FERS Act of 1986 noted that “The ratio of the employee contribution for military service (3 percent) to the cost of the defined benefit plan under FERS is comparable to that under CSRS.” See Senate Report 99-302, *Federal Employees Retirement System Act of 1986*, May 16, 1986, p. 127.

<sup>26</sup> The normal cost of the CSRS annuity is 26.0% of pay.  $0.07/0.260 = 0.269$ .

<sup>27</sup> The normal cost of the FERS annuity is 12.7% of pay.  $0.03/0.127 = 0.236$ .

<sup>28</sup> The interest rate is determined annually by the Secretary of the Treasury and is based on the average yield of new investments purchased by the Civil Service Retirement and Disability Fund during the previous fiscal year.

Year	Interest Rate	Year	Interest Rate
2008	4.750	1993	7.125
2007	4.875	1992	8.125
2006	4.125	1991	8.625
2005	4.375	1990	8.750
2003	5.000	1989	9.125
2002	5.500	1988	8.375
2001	6.375	1987	9.000
2000	5.875	1986	11.125
1999	5.750	1985	13.000

**Source:** U.S. Office of Personnel Management.

For example, if a veteran was hired into federal employment on January 1, 1996, he or she could have made an interest-free deposit to the CSRDF before January 1, 1998, to credit his or her military service toward a FERS annuity. The required deposit would have been equal to 3.0% of the basic pay he or she received while on active duty in the military. If this individual had received basic pay during his or her years of military service totaling \$100,000, the required deposit would have been \$3,000. If the deposit was made after January 1, 1998, interest would have been charged at the rates shown in **Table 1** for each year, or fraction thereof, between January 1, 1998, and the date of the deposit. For instance, if the deposit had been made on January 1, 2014, the required deposit would have been \$5,130, of which \$2,130 would represent interest charges.

## Conclusion

When Congress established the Civil Service Retirement System in 1920, it permitted veterans of active-duty military service who were hired as federal employees to have their military service counted for purposes of eligibility and benefits under CSRS. The statutes that allow military service to be credited toward a civil service retirement annuity have been amended several times over the years, mainly to coordinate civil service retirement benefits with benefits earned under Social Security. Most current federal employees were hired after September 30, 1982, and are enrolled in FERS. For such an employee to have his or her military service credited toward a FERS annuity, he or she must make a deposit to the Civil Service Retirement and Disability Fund equal to 3.0% of the total basic pay received while on active-duty military service. Interest is charged if the deposit is made more than two years after the date that the employee was hired. Deposits must be paid to the CSRDF before the individual separates from federal employment.

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